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CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE  
31 August 1954

C D/E D

TO: Deputy Director (Intelligence)

SUBJECT: American Mission Recommends Additional Aid for Pakistan 25X1

REFERENCE:

#### Background and Summary Statement

Following Pakistan's request in June for special American aid to meet unexpected foreign exchange shortages, FOA sent a five-member mission to survey the situation there. The mission arrived in Pakistan in early August. It was commissioned to define the present problems and suggest measures to meet this situation as well as to recommend measures aimed at preventing recurring crises.

The mission, headed by H. J. Heinz II, president of the H. J. Heinz Company, included FOA and Department of State representatives. On 27 August 1954, it submitted a preliminary summary of its findings. This summary concludes that there are evidences of severe economic strains far exceeding those expected by the Karachi government. It recommends that the United States provide about \$76,000,000 worth of commodities in addition to the present proposed program of about \$27,000,000 worth of aid in fiscal year 1955. A formal report will be available about 10 September.

#### Present Economic Situation

The mission believes that, for the next three years, Pakistan "will only be able to keep its head above water," assuming that there will be neither any added Pakistani military expenditure nor any unforeseen disasters. The principal strains on the economy are acute shortages of such items as food and clothing as well as of imported raw materials and repair parts for the country's nascent industry.

State Dept. review completed

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As a result of the continuing slump in the sale of Pakistan's two major exports--jute and cotton--the country's gold and foreign exchange reserves stood at an all-time low of about \$173,000,000 as of 6 August. In view of Pakistan's policy of maintaining its present military establishment and expanding its economic development, the mission believes that, unless additional American aid is provided, there will be an even greater reduction of vital consumer and industrial imports. The Pakistani statement of the minimum shortfall of exchange--between essential import requirements and expected foreign exchange income--of about \$90,000,000 appears somewhat overestimated. Nevertheless, the mission's analysis indicates a minimum exchange gap of about \$76,000,000.

#### Implications in Economic Situation

Mr. Heinz is convinced Karachi's statement that the present situation is causing popular disfavor to focus on the government is not an overstatement, and that time is "more of the essence" than the government realizes. Further curtailment of imports will endanger the country's entire political and economic structure. It would also prevent industry from expanding to meet some of Pakistan's present import needs, thus increasing the possibility of recurring crisis. Although the situation in East Pakistan is generally worse than in West Pakistan, the mission believes the problem must be treated as a whole.

Despite the toughness and patience of the people, Heinz sees three effects which the continued denial of import demands will be likely to have: 1) it will be exploited by the political opposition and subversive opportunists as proof of the present government's lack of regard for human wants; 2) it will be interpreted by the articulate upper and middle classes as failure of the policy of alignment with the United States; and 3) it will cause further deterioration of confidence in the present government, endangering the continuance of its leadership to the detriment of American interests.

#### Importance of Proposed Aid

The mission believes its proposed \$76,000,000 commodity aid program will provide badly needed reinforcement to the stability of the Karachi government. It fears Karachi may have underestimated the seriousness of the present political situation as it did in the mid-March provincial election in East Pakistan, where the ruling Moslem League was severely defeated. The proposed aid increase could also provide a

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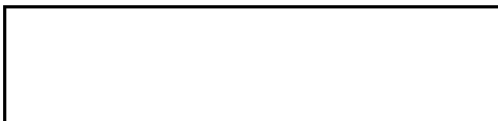
source of counterpart funds--largely available for Pakistani military expenditures--to support American military aid, which Pakistan's economy could not otherwise provide.

Heinz states that the outlook for general economic stability and the maintenance of Pakistan's present government is, on balance, favorable. This would, however, depend on the continuation of the present Pakistani effort and on the provision of substantial additional American aid this year as well as for the next two years on a step-down basis.

OCI Comment

The Heinz mission, which consists of competent experts, has made, within the limits of available time, an intensive survey of Pakistan's economy. Its assessment and recommendations appear to be sound.

HUNTINGTON D. SHELDON  
Assistant Director  
Current Intelligence



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- 3 -

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